



Judicial Council of California
Administrative Office of the Courts

Trial Court Financial Policies and Procedures

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ACCOUNTING PRINCIPLES

POLICY NUMBER: AOC FIN 5.01

Original Release

April 2001

Originator:

Administrative Office of the Courts

Effective Date:

August 1, 2001

Revision Date:



Accounting Principles

1.0 Purpose

The purpose of this policy is to establish uniform guidelines and accounting principles for the trial court to follow when gathering, summarizing and reporting accounting information associated with the fiscal operations of the court.

2.0 Policy Statement

It is the policy of the Judicial Council of California and the Administrative Office of The Courts that the trial court shall comply with the basic principles of accounting and reporting that are applicable to government units. Financial transactions shall be executed and accounted for in conformity with generally accepted accounting principles (GAAP) and legal requirements.

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4.0 Application

This procedure will apply to all trial courts of California including their employees and agents.

5.0 Definitions

1. **Accrual Basis.** The accrual method of accounting recognizes transactions when they occur, regardless of the timing of related cash flow. Revenues are recognized when earned and expenses when incurred.
2. **Generally Accepted Accounting Principles (GAAP).** Uniform minimum standards and guidelines for financial accounting and reporting which govern the form and content of the financial statements of the entity. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practices at a given time. They include not only broad guidelines of general application, but also detailed practices and procedures.
3. **Governmental Accounting Standards Board (GASB).** The authoritative accounting and financial reporting standard-setting body of government entities.
4. **Lockyer-Isenberg Trial Court Funding Act of 1997 (AB 233).** Law enacted by the State of California legislature taking effect on January 1, 1998. Under this law, the funding of the trial courts is consolidated at the state level to ensure equal access to justice throughout California. Key provisions of the law include giving the legislature authority to make appropriations and giving the Judicial Council of California authority to allocate funds to state courts (refer to the full text of the law included in Appendix A).

5. **Modified Accrual Basis.** The accrual basis of accounting adapted to the governmental fund type measurement focus. Under the modified accrual basis, revenues are recognized when they become both *measurable* and *available* to finance expenditures of the current period. *Available* means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the fund liability is incurred. All governmental funds, expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting.
6. **Rule 810.** California Rule of Court that defines the division of responsibility between the state and county for funding the trial courts. Rule 810 includes a listing of the types of costs that the county is allowed to charge the court as well as a list of unallowable costs.

6.0 Text

6.1 General

Government entities such as the trial court operate in a unique environment. They are subject to many requirements and legal restrictions attached to their use of public resources. The users of trial court financial information, whether they are internal or external to the court, depend upon reliable financial data and reports issued by the court to obtain the information they need to evaluate the court's finances.

6.1.1 Generally Accepted Accounting Principles (GAAP)

1. To meet the needs of internal and external users of trial court financial information, State and local governments have adopted Generally Accepted Accounting Principles (GAAP).
2. GAAP are uniform *minimum* standards and guidelines for financial

accounting and reporting. They govern the form and content of an organization's financial statements. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practices at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures.

6.1.2 Governmental Accounting Standards Board (GASB)

1. GAAP apply to both private and public sector organizations. The term private sector generally refers to businesses and non-profit organizations. Public sector generally refers to state and local governments.
2. The highest authority for setting accounting standards for the private sector is the Financial Accounting Standards Board (FASB). The primary authoritative body for setting standards for the public sector is the Governmental Accounting Standards Board (GASB).

6.2 Application of GAAP

1. The trial court shall use an accounting system that conforms to GAAP to assure uniformity in financial reporting and to provide a reasonable degree of comparability between trial court and State financial reports.
2. The accounting system implemented by the trial court must both:
 - a. Present fairly and fully disclose the financial positions and results of operations of the court's funds in conformity with GAAP.
 - b. Determine and demonstrate compliance with all legal requirements and contractual provisions.

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3. Every effort shall be made to comply with GAAP. When legal requirements conflict with GAAP, the basic financial statements shall be prepared in conformity with GAAP. Additional schedules and explanations shall be also issued to conform to legal requirements, if necessary.¹

6.3 Fund Accounting

1. **Governmental funds** shall be the primary fund type the court uses to account for its resources. The number and types of funds established shall be based upon how the court's resources will be spent and the need to segregate and account for funds used for different purposes.
2. The court may establish several funds. Each fund shall have separate general ledger accounts to account for designated assets, liabilities, and other balances. [Section 1300, GASB Codification states that a government unit should keep the least number of funds possible to satisfy its particular circumstances.]
3. The trial court shall use the *Governmental* (Trial Court Operations Fund, Special Revenue Funds) and *Fiduciary* (Agency and Trust funds) types of funds to account for its financial activities. Policy No. FIN 3.01 - Fund Accounting, provides more details on trial court funds.
4. Governmental fund revenues shall be classified by fund and source codes.
5. Trial Court Trust Fund Rule 810 Allowable expenditures shall be classified by fund, program, element, component, task, object, and sub-object codes.

¹ National Council on Governmental Accounting, *Accounting Standards and Procedures*, Summary Statement of Accounting Principles, Section 1.04

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6. Non-Rule 810 expenditures shall be classified by fund, object and sub-object codes.

6.4 Basis of Accounting

1. The trial court shall utilize the **Modified Accrual Basis** of accounting to measure its financial position and the results of operations associated with the court's *Governmental* and *Fiduciary* funds.
2. The court shall recognize revenues when they become both measurable and available to finance expenditures of the current period.
3. Expenditures shall be recognized in the accounting period during which goods are received or services are rendered.
4. Policy No. FIN 5.02 - Revenues and Expenditures, provides a more detailed discussion on the recognition of revenues and expenditures as well as year-end accrual procedures.

6.5 Budgetary Accounting

1. The trial court shall adopt an annual budget. The annual budget is the court's plan of financial operation, which includes estimates of proposed expenditures for the fiscal year. Refer to Policy Nos. FIN 4.01 - Budget Development, and 4.02 - Budget Monitoring and Reporting, for more details.
2. The trial court accounting system shall provide the basis for appropriate budgetary control. Budgetary comparisons shall be included as part of the financial statements and schedules for each of the court's funds included under the annual budget.

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6.6 Financial Reporting

The trial court shall prepare the following financial reports or information:

Reporting Basis	Types of reports	Disclosure
Quarterly Financial Statements (QFS)	Combined Statement of Revenues, Expenditures and Changes in Fund Balances	All funds
Comprehensive Annual Financial Report (CAFR) Financial Information	Combined ¹ Balance Sheet	All funds
	Combined Statement of Revenues, Expenditures and Changes in Fund Balances	All funds

7.0 Associated Documents

¹ Includes all Agency and Trust fund balances in one statement and the Trial Court Operations Fund in another.